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SCOTT



SCOTT PAPER LIMITED ANNUAL REPORT 1976



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## Scott Paper Limited 1976 Annual Report

Head office/Vancouver, British Columbia  
Plants/New Westminster and Surrey,  
British Columbia and Crabtree, Quebec  
Sales offices/Vancouver, Winnipeg, Toronto,  
Montreal and Dartmouth, Nova Scotia

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## Valuation Day Value

For Canadian capital gains tax purposes, valuation day values of Scott Paper Limited securities are as follows:

|                                |          |
|--------------------------------|----------|
| Common Shares .....            | \$ 18.50 |
| 1971 Series A Debentures ..... | \$102.00 |



## Message to the Shareholders

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1976 marked another year of progress for Scott Paper Limited. Sales increased by 17.5% to \$99,431,000, surpassing all previous records. Net earnings were \$3,565,000, or \$4.46 per share, an increase of 20.5% over the \$3.70 earned in 1975, also an all-time high. The performance by all divisions of the company was exemplary, particularly under the circumstances that prevailed.

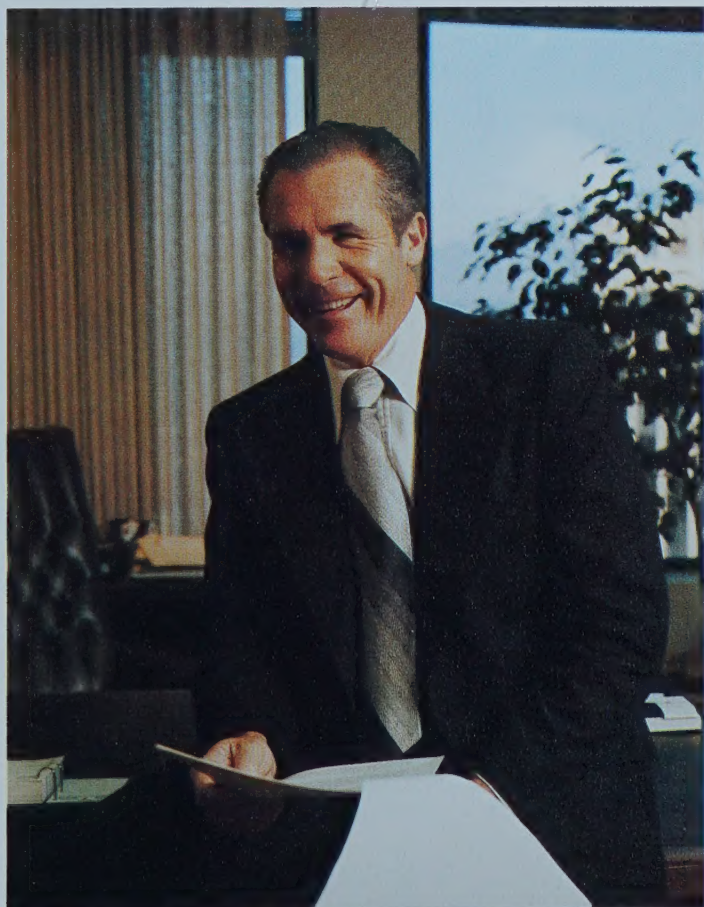
Federal Government controls on wages, prices, profits and dividends made 1976 an even more challenging year. Generally weaker world-wide economic conditions, along with the controls, resulted in a decline in the rate of increase in our costs and moderated the need for price increases. The control on profits, however, caused a decline in returns on sales and held earnings at levels below those needed to provide the capital for replacement of obsolete facilities and for continued growth and new job opportunities. The investment climate generally is, I believe, Canada's most serious problem, influenced as it is

by government intervention, political uncertainties, and relatively high costs of labour, supplies and services. We must find a way back to the reality of costs of government, wages and salaries that this country can afford if we are to remain competitive and encourage the investment so necessary for creating the more permanent employment that results from the production of goods and services by the private sector.

Among the highlights of our year was the move of the corporate offices from New Westminster to downtown Vancouver. This will afford an even greater participation in the business community, with the improved proximity to our advertising agency, financial services, auditors, legal counsel and the meeting locations of the industry and community associations in which many of our people actively participate.

The company continued to concentrate in the areas of both internal and external communication during 1976. A major policy-setting sales and management conference was held, with emphasis on a two-way flow of information. A film depicting the company's progress, challenges and strengths was presented to many of our people at gatherings through the year. The awareness and image of the company was enhanced as a result of increased and improved advertising.

Two distinguished members of the Board of Directors of Scott Paper Limited stepped down from their posts in 1976. On November 1st, Arthur F. Armstrong retired as Chairman of the Board. First elected as a director in 1954, he became President of the company in 1958. He was named Chairman of the Board in 1972 and held this position until retirement. His interest in the human aspects of our company and his business acumen and judgement played a major leadership role in the company's development over the past twenty years.





Upon his retirement from Scott Paper Company, Philadelphia, Paul C. Baldwin resigned as a director. Mr. Baldwin, who has been associated with Scott Paper Limited since its affiliation with the parent company in 1954, was first appointed a director in 1971.

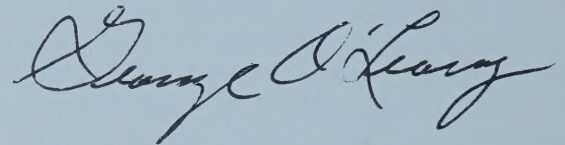
On behalf of the Board of Directors and their many friends in the company, we gratefully acknowledge the many contributions made to our company by Mr. Armstrong and Mr. Baldwin.

The prospects for the company in 1977 are good, but must be viewed in the light of economic conditions. Real G.N.P. is projected to rise between 3% and 5%, somewhat less than the average of the past five years. Retail sales, which affect our business, are expected to be moderately supportive. Unemployment is anticipated to remain high and capital investment low.

Despite these uncertainties, Scott Paper Limited is confident in Canada's future — and its own. We feel sure that the high level of personal involvement that employees have shown in producing and marketing our quality products, will continue to earn support from our customers and suppliers.

Our sincere appreciation is offered to the many people within the company, and to those who work with us as customers and suppliers, for their support in making 1976 a year of progress.

FOR THE BOARD OF  
DIRECTORS,



GEORGE L. O'LEARY  
*Chairman*

## Financial Summary

In 1976, the company continued its pattern of setting records in sales and income after taxes. Sales amounted to \$99,431,000, an increase of 17.5% over sales of \$84,629,000 in the previous year. Income after taxes increased 20.5% to \$3,565,000 from \$2,959,000. It should be remembered that our results in the previous year were affected by an eleven-week strike at the New Westminster plant.

Income after taxes increased at a somewhat faster rate than before-tax income because of a lower effective tax rate in 1976 — 42% versus 45.2%. This lower tax rate was due to the investment tax credits arising from our investment spending in plant and equipment during the year.

Due to construction strikes and late deliveries of machinery, the investment of \$7.6 million in plant and equipment in 1976 was somewhat less than originally estimated. For 1977, we anticipate

capital expenditures of \$12 million, including the carry-over from the previous year. The capital additions of 1976 were entirely financed by the cash flow of the company, and a substantial portion of the expenditures of next year will be similarly financed. Due to the 1976 capital investment, a further \$1,512,000 was added to deferred tax credits for the year, which assisted in funding the expenditures.

On October 14, 1975, the Federal Government established the Anti-Inflation Board (A.I.B.) in an attempt to control inflation. As a company, we agree with the need to control inflation and are making every effort to cooperate in this endeavour.

During 1976, the A.I.B. included Scott Paper Limited as a company that had excess revenue in the last quarter of 1975. The overall income results of the company in 1975 were well within the

## Financial Highlights

| FOR THE YEAR                                                  | 1976<br>(thousands of dollars<br>except per share) | 1975      | Percent<br>Change |
|---------------------------------------------------------------|----------------------------------------------------|-----------|-------------------|
| Net sales .....                                               | \$ 99,431                                          | \$ 84,629 | 17.5              |
| Depreciation .....                                            | 3,869                                              | 3,286     | 17.7              |
| Interest expense .....                                        | 2,306                                              | 2,115     | 9.0               |
| Income before taxes .....                                     | 6,143                                              | 5,404     | 13.7              |
| per share .....                                               | 7.68                                               | 6.76      |                   |
| Income taxes .....                                            | 2,578                                              | 2,445     | 5.4               |
| Income after taxes .....                                      | 3,565                                              | 2,959     | 20.5              |
| per share .....                                               | 4.46                                               | 3.70      |                   |
| Dividends .....                                               | 960                                                | 960       | —                 |
| per share .....                                               | 1.20                                               | 1.20      |                   |
| Income reinvested in the business .....                       | 2,605                                              | 1,999     | 30.3              |
| Cash flow from operations .....                               | 8,983                                              | 7,705     | 16.6              |
| per share .....                                               | 11.23                                              | 9.63      |                   |
| Capital expenditures .....                                    | 7,589                                              | 7,056     | 7.6               |
| Salaries, wages and benefits .....                            | 27,239                                             | 21,088    | 29.2              |
| AT YEAR END                                                   |                                                    |           |                   |
| Ratio current assets to current liabilities .....             | 1.9                                                | 2.3       |                   |
| Long term debt .....                                          | \$ 21,464                                          | \$ 21,633 |                   |
| Shareholders' interest per share .....                        | \$ 36.99                                           | \$ 33.74  |                   |
| Number of shares outstanding at year end<br>(thousands) ..... | 800                                                | 800       |                   |
| Number of shareholders .....                                  | 1,024                                              | 1,095     |                   |
| Number of employees .....                                     | 1,589                                              | 1,588     |                   |
| Investment in assets per employee .....                       | \$ 37                                              | \$ 34     |                   |



guidelines established by the A.I.B., as they are again in 1976. However, the A.I.B. also looks at how a company does on each product or product line relative to the income made on those items in the base years 1970-1974. With the numerous products manufactured by the company and the continual changes in sales volume, production efficiencies, and the shift in marketing and promotion dollars between products to meet competition, it is extremely difficult to control the profits of each product to conform to a set profit percentage. The company had several products that earned somewhat more profit than allowed, but the greatest number of products earned considerably less. The A.I.B. does not take these lost profits into consideration — only profits in excess of limits are reported. The company makes every attempt to adhere to the rules by products but, in this part of the program, control is most difficult. This difficulty appears to have been recognized by the A.I.B., as they are shifting their emphasis in 1977 to the total earnings of a company relative to base years.

The dividend rate in 1976, under A.I.B. controls, was \$1.20 per share, the same as in the previous year. This was the 46th consecutive year of dividend payments to the common shareholders. As announced in an earlier release, the company intends to increase the dividend rate to \$1.30 per share in 1977, in conformity with the limits established by the A.I.B. regulations.





## Manufacturing

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The Manufacturing Division made significant contributions to the financial performance of the company. A strong spirit of cooperation by our people throughout 1976, combined with the benefits of major cost control programs and firm pulp prices, were the major contributors to the overall favourable performance by the Division. However, the low opening inventory resulted in frequent changes to production schedules and affected manufacturing and distribution efficiencies until well into the year.

During the past year, the Eastern Division made further improvements to the Cottonelle operation. In the Western Manufacturing Division, new and expanded converting facilities were successfully started up in late November, and improvements were also made there to our papermaking operations.

We continue to invest in environmental control and conservation programs. In New Westminster, fibre recovery from the process water in the paper mill has been improved, which enables us to meet the latest regulations governing discharges into the Fraser River. The Pulp and Paper Industry has established a target of a 12% reduction in energy consumption by 1980. Programs are underway throughout the company which should enable us to exceed the industry targets. In addition to conservation, these programs should have a significant financial benefit as savings in the cost of fuel and power are realized.

Several very important steps have been taken concerning our wood supply and pulping operations. Subsequent to our presentation to the Pearce Commission on Forest Resources in British Columbia, efforts were renewed to increase cottonwood supplies for our Western groundwood pulp mill. Groundwood fibre utilization has also been improved by the

installation of a new refining system there. At our Eastern Manufacturing Division, construction has started on the conversion of the existing groundwood facilities into a secondary fibre operation. This investment will result in improvements to product quality and manufacturing efficiency.

Important programs to upgrade our fire protection standards and systems were initiated at both mills during the year and our personnel and safety training programs were reviewed and intensified. A highlight in New Westminster was a very successful Open House held in November. Approximately 1,200 people toured the facilities, including suppliers, customers, families of the employees, and interested persons from the community.

Labour agreements with the unions who represent our manufacturing employees in both Eastern and Western Canada expire at mid-year in 1977. We are confident that settlements can be achieved which will meet the realistic requirements of both the employees and the company.







## Marketing

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Sales results for the year were encouraging and reflected a wide and growing acceptance of Scott products. Our more recently introduced brands, together with other product and packaging improvements, made particularly important contributions to the growth and development of our company and its market position.

Business and market conditions varied considerably across the country and throughout the year. The company opened the year with a very low inventory as a result of the work stoppage at the Western Manufacturing Division in 1975. Moreover, there were similar disruptions to the operations of our competitors which extended into the early months of 1976. As a result, there were insufficient supplies available to satisfy the demands of the market. Our own problems with supply and scheduling were compounded by the growing shortages elsewhere in the industry. As the second half-year commenced, our inventory position improved but competitive activity became intense as the industry sought to normalize its market position.

Compared to the recession conditions of 1975, there was renewed growth in the consumption of almost all consumer product categories. However, consumption of industrial products was barely even with 1975 and was off in some important product categories. In spite of the conditions that prevailed, the Industrial Division, with solid support from its distributors, maintained its market position.

Cottonelle bathroom tissue continued its strong showing in Ontario and Quebec and has now been introduced in the Maritimes.

Product and packaging improvements which were introduced during the year included changes to Purex, both Scott and Viva Towels, Scott Family Napkins, babyScott diapers, and the Scotties and Lady Scott product lines. This heavy program of changeover presented a stiff challenge to our marketing and production management people. They are to be highly complimented for their accomplishments.

The company has continued its television advertising policy of supporting only those programs that meet acceptable standards for family viewing. This policy, which has been adopted by several other large Canadian advertisers, limits the availability of prime time programming for spot television and has led to new strategies for reaching the television viewing audiences. One very interesting new vehicle for this season will be our own T.V. special, featuring the Lady Scott Invitational Golf Tournament filmed last fall at Oak Bay, near Victoria, British Columbia. The Scott sponsored network presentations of Peter Pan, Beaux Dimanche and the Miss Canada Pageant drew very satisfactory viewing audiences.



The old expression, "a company is only as strong as its people" has never been more evident than in Scott Paper Limited.

Scott employees in Canada now total 1,589 and serve the consumer public, industry and commerce from St. John's Newfoundland to Victoria, B.C.

Not many companies could match the Scott claim that one employee in six has over 20 years service. In fact, 82 employees have more than 30 years service. And some families have had members with Scott continuously since the company's founding.

Whether our people are in the sales organization spread across the country, in one of the two Manufacturing Divisions at New Westminster, B.C. or Crabtree, Quebec, or the Corporate Offices, their influence is also felt in the community. We have amongst us a former mayor, a fire chief, a number of school commissioners and municipal counsellors. Others are involved in a wide variety of activities, from participation on the boards of hospitals, educational institutions and the United Appeal, to the all-important involvement in such activities as Little League, Minor Hockey, and other youth work.









## Consolidated Statements of Income and Retained Income

Year ended December 31

|                                                                                                      | 1976<br>(in thousands) | 1975            |
|------------------------------------------------------------------------------------------------------|------------------------|-----------------|
| INCOME:                                                                                              |                        |                 |
| Sales, less allowances and after deducting Federal sales tax of \$8,786,000 (1975—\$7,026,000) ..... | <u>\$99,431</u>        | <u>\$84,629</u> |
| EXPENSES (Note 7):                                                                                   |                        |                 |
| Cost of products sold .....                                                                          | 68,876                 | 60,144          |
| Selling and distribution expenses .....                                                              | 18,206                 | 14,311          |
| Administrative and general expenses .....                                                            | 3,900                  | 2,655           |
| Debenture interest and amortization of issue costs .....                                             | 2,224                  | 1,041           |
| Bank interest .....                                                                                  | 82                     | 1,074           |
|                                                                                                      | <u>93,288</u>          | <u>79,225</u>   |
| Income before income taxes .....                                                                     | <u>6,143</u>           | <u>5,404</u>    |
| INCOME TAXES:                                                                                        |                        |                 |
| Current .....                                                                                        | 1,066                  | 1,016           |
| Deferred .....                                                                                       | 1,512                  | 1,429           |
|                                                                                                      | <u>2,578</u>           | <u>2,445</u>    |
| Income for the year .....                                                                            | <u>\$ 3,565</u>        | <u>\$ 2,959</u> |
| Income per share .....                                                                               | <u>\$4.46</u>          | <u>\$3.70</u>   |
| RETAINED INCOME:                                                                                     |                        |                 |
| Retained income at beginning of year .....                                                           | \$20,390               | \$18,391        |
| Income for the year .....                                                                            | <u>3,565</u>           | <u>2,959</u>    |
|                                                                                                      | 23,955                 | 21,350          |
| Dividends — \$1.20 per share .....                                                                   | 960                    | 960             |
| Retained income at end of year .....                                                                 | <u>\$22,995</u>        | <u>\$20,390</u> |



## Consolidated Statement of Financial Position

December 31

|                                                         | 1976<br>(in thousands) | 1975            |
|---------------------------------------------------------|------------------------|-----------------|
| <b>CURRENT ASSETS:</b>                                  |                        |                 |
| Cash .....                                              | \$ 37                  | \$ 25           |
| Trade and other accounts receivable .....               | 6,669                  | 7,358           |
| Inventories (Note 2) .....                              | 24,328                 | 18,353          |
| Prepaid expenses .....                                  | 181                    | 224             |
|                                                         | <u>31,215</u>          | <u>25,960</u>   |
| <b>CURRENT LIABILITIES:</b>                             |                        |                 |
| Bank indebtedness (Note 3) .....                        | 4,915                  | 3,504           |
| Accounts payable and accrued liabilities .....          | 11,133                 | 7,720           |
| Income taxes payable .....                              | 464                    | 310             |
|                                                         | <u>16,512</u>          | <u>11,534</u>   |
| Working capital .....                                   | <u>14,703</u>          | <u>14,426</u>   |
| <b>Add: NON-CURRENT ASSETS—</b>                         |                        |                 |
| Fixed assets (Note 4) .....                             | 43,170                 | 39,480          |
| Unamortized debenture discount and issue expenses ..... | 476                    | 509             |
| Miscellaneous assets .....                              | 271                    | 257             |
|                                                         | <u>43,917</u>          | <u>40,246</u>   |
| <b>Deduct: NON-CURRENT LIABILITIES—</b>                 |                        |                 |
| Sinking fund debentures (Note 5) .....                  | 21,464                 | 21,633          |
| Deferred income taxes (Note 1(d)) .....                 | 7,561                  | 6,049           |
|                                                         | <u>29,025</u>          | <u>27,682</u>   |
| Net assets .....                                        | <u>\$29,595</u>        | <u>\$26,990</u> |
| <b>SHAREHOLDERS' INTEREST:</b>                          |                        |                 |
| Share capital (Note 6) .....                            | \$ 6,600               | \$ 6,600        |
| Retained income .....                                   | 22,995                 | 20,390          |
|                                                         | <u>\$29,595</u>        | <u>\$26,990</u> |
| <b>APPROVED BY THE BOARD OF DIRECTORS:</b>              |                        |                 |
| G. L. O'Leary<br>Director                               |                        |                 |
| A. W. Fisher<br>Director                                |                        |                 |



# Notes to Consolidated Financial Statements

## December 31, 1976

### 1. Summary of significant accounting policies:

#### (a) Principles of consolidation—

The consolidated financial statements include the accounts of Scott Paper Limited and its wholly-owned subsidiaries, Westminster Paper Company Limited, operating, and Omega Products Limited, non-operating.

Where appropriate, all intercompany transactions are eliminated.

#### (b) Inventories—

Inventories of finished products and work in process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.

#### (c) Depreciation and amortization—

##### Fixed assets—

Depreciation is provided on buildings, machinery and equipment on a straight-line basis over their estimated useful economic lives at rates ranging from 2½% to 20% of original cost per annum.

##### Debenture discount and issue expenses—

The amortization of debenture discount and issue expenses is provided on a basis related to the principal amount outstanding.

#### (d) Income taxes—

On January 1, 1968 the Company adopted the tax allocation method of accounting for income taxes for all periods subsequent to that date.

Subsequent to January 1, 1968, the Company has provided for deferred income taxes arising primarily from claiming capital cost allowances available for income tax purposes in excess of depreciation charged to operations.

Prior to January 1, 1968 the Company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on its fixed assets. Because capital cost allowances exceeded depreciation provided in the financial statements for those years, there are accumulated reductions in income taxes otherwise payable of approximately \$3,902,000 which have not been recorded as deferred income taxes.

### 2. Inventories:

#### Inventories consist of—

|                                             | <i>December 31</i>    |                 |
|---------------------------------------------|-----------------------|-----------------|
|                                             | 1976                  | 1975            |
|                                             | <i>(in thousands)</i> |                 |
| Finished products and work in process ..... | \$15,828              | \$ 8,265        |
| Raw materials and supplies .....            | 8,500                 | 10,088          |
|                                             | <u>\$24,328</u>       | <u>\$18,353</u> |

### 3. Bank indebtedness:

The bank indebtedness includes unpresented cheques and is secured by a pledge of the Companies' accounts receivable and inventories.

### 4. Fixed assets:

#### Fixed assets consist of—

|                                                   | <i>December 31</i>    |                 |
|---------------------------------------------------|-----------------------|-----------------|
|                                                   | 1976                  | 1975            |
|                                                   | <i>(in thousands)</i> |                 |
| Land, at cost .....                               | \$ 527                | \$ 527          |
| Buildings, machinery and equipment, at cost ..... | 72,090                | 64,896          |
| Less: Accumulated depreciation .....              | 29,447                | 25,943          |
| Net book value of depreciable assets ....         | <u>42,643</u>         | <u>38,953</u>   |
|                                                   | <u>\$43,170</u>       | <u>\$39,480</u> |



5. Sinking fund debentures:

|                                                                          | December 31    |                |          |
|--------------------------------------------------------------------------|----------------|----------------|----------|
|                                                                          | 1976           |                | 1975     |
|                                                                          | 8¾ % Series A  | 11⅝ % Series B | Total    |
|                                                                          | (in thousands) |                |          |
| Principal amount issued .....                                            | \$12,000       | \$11,000       | \$23,000 |
| Less: Amount retired by terms of mandatory sinking fund provisions ..... | 1,080          | —              | 1,080    |
| Amount acquired and lodged for future sinking fund requirements .....    | 456            | —              | 456      |
|                                                                          | 1,536          | —              | 1,536    |
| Principal amount outstanding .....                                       | \$10,464       | \$11,000       | \$21,464 |

8¾ % sinking fund debentures, Series A—

The Series A debentures were issued on July 2, 1971 with a maturity date of July 2, 1991 and require that mandatory sinking fund payments be made in each of the years 1974 to 1990 to retire \$360,000 of the debentures per annum with an option to retire a further \$180,000 per annum.

11⅝ % sinking fund debentures, Series B—

The Series B debentures were issued on December 9, 1975 with a maturity date of October 31, 1990 and require that mandatory sinking fund payments be made in each of the years 1978 to 1989 to retire \$770,000 of the debentures per annum.

The debenture trust agreement contains a distribution test formula which limits the availability of retained income for payment of dividends. As of December 31, 1976 approximately \$6,600,000 is available for distribution under the most restrictive tests.

Minimum sinking fund payments required in each of the five years following December 31, 1976 is as follows—

|      |              |
|------|--------------|
| 1977 | \$ — *       |
| 1978 | \$1,034,000* |
| 1979 | \$1,130,000  |
| 1980 | \$1,130,000  |
| 1981 | \$1,130,000  |

\*Net of amounts acquired and lodged for future sinking fund requirements.

6. Share capital:

The authorized share capital of Scott Paper Limited consists of 2,000,000 common shares without par value of which 800,000 are issued and outstanding.

Of the 1,200,000 unissued shares, 50,000 are reserved for options under the "Key Employees' Stock Option Plan". As at December 31, 1976, options to purchase 46,000 shares are outstanding (but not yet exercised) at a price of \$24.00 per share, valid to October 23, 1981.

and individual earnings determine the pensions and retirement benefits for all members of the plans. It is the Company's practice to provide for its portion of the cost of pensions and retirement benefits accrued, through charges to earnings determined by periodic actuarial computations. At December 31, 1976 the pension plans were sufficiently funded to meet obligations at that date.

7. Expenses include:

|                                                 | December 31    |          |
|-------------------------------------------------|----------------|----------|
|                                                 | 1976           | 1975     |
|                                                 | (in thousands) |          |
| Depreciation .....                              | \$ 3,869       | \$ 3,286 |
| Directors' and senior officers' remuneration .. | \$ 502         | \$ 446   |

9. Anti-Inflation Program:

The Company and its operating subsidiary are subject to, and believe they have complied with, controls on prices, profits, compensation and dividends under the federal government's Anti-Inflation Program. Under the present anti-inflation legislation, dividends during the compliance year ended October 13, 1977 may not exceed \$1.30 per share.

8. Pension plans:

The Company has a number of contributory pension plans, participation being available to substantially all of its employees. Length of service

10. Reclassification of comparative figures:

Figures for 1975 have been reclassified where necessary to conform with the presentation adopted for 1976.



## Consolidated Statement of Changes in Financial Position

Year ended December 31

|                                                              | 1976<br>(in thousands) | 1975     |
|--------------------------------------------------------------|------------------------|----------|
| Financial resources were provided by:                        |                        |          |
| Operations—                                                  |                        |          |
| Income for the year .....                                    | \$ 3,565               | \$ 2,959 |
| Items which did not involve an outlay<br>of working capital— |                        |          |
| Depreciation .....                                           | 3,869                  | 3,286    |
| Deferred income taxes .....                                  | 1,512                  | 1,429    |
| Amortization of debenture issue costs .....                  | 45                     | 33       |
| Gain on disposal of fixed assets .....                       | (8)                    | (2)      |
|                                                              | 8,983                  | 7,705    |
| Issue of Series B debentures (net of expenses) .....         | —                      | 10,860   |
| Proceeds on disposal of fixed assets .....                   | 38                     | 32       |
|                                                              | 9,021                  | 18,597   |
| Financial resources were used for:                           |                        |          |
| Additions to fixed assets .....                              | 7,589                  | 7,056    |
| Dividends .....                                              | 960                    | 960      |
| Purchase of Series A debentures .....                        | 169                    | 3        |
| Increase in miscellaneous assets .....                       | 26                     | 10       |
|                                                              | 8,744                  | 8,029    |
| Increase in working capital during the year .....            | 277                    | 10,568   |
| Working capital at beginning of year .....                   | 14,426                 | 3,858    |
| Working capital at end of year .....                         | \$14,703               | \$14,426 |

## Auditors' Report

To the Shareholders of  
Scott Paper Limited:

1075 West Georgia Street,  
Vancouver, B.C.  
February 11, 1977

We have examined the consolidated statement of financial position of Scott Paper Limited as at December 31, 1976 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.  
Chartered Accountants



# Ten Year Review

|                                                          | 1976     | 1975   | 1974    | 1973    | 1972   | 1971   | 1970   | 1969   | 1968   | 1967   |
|----------------------------------------------------------|----------|--------|---------|---------|--------|--------|--------|--------|--------|--------|
| <i>(thousands of dollars except Per Share)</i>           |          |        |         |         |        |        |        |        |        |        |
| <b>Sales and Earnings</b>                                |          |        |         |         |        |        |        |        |        |        |
| Net sales .....                                          | \$99,431 | 84,629 | 73,571  | 56,295  | 48,118 | 42,910 | 39,762 | 35,789 | 34,133 | 29,894 |
| Depreciation .....                                       | 3,869    | 3,286  | 3,008   | 2,394   | 2,031  | 1,780  | 1,426  | 1,312  | 1,223  | 1,079  |
| Interest expense .....                                   | 2,306    | 2,115  | 1,220   | 1,099   | 1,103  | 879    | 448    | 334    | 211    | 243    |
| Income before taxes ....                                 | 6,143    | 5,404  | 5,523   | 3,538   | 3,244  | 3,049  | 3,183  | 3,268  | 3,020  | 2,256  |
| Income taxes* .....                                      | 2,578    | 2,445  | 2,586   | 1,544   | 1,557  | 1,463  | 1,600  | 1,700  | 1,585  | 1,297  |
| Income after taxes* ....                                 | 3,565    | 2,959  | 2,937   | 1,994   | 1,687  | 1,586  | 1,583  | 1,568  | 1,435  | 959    |
| <b>Per Share</b>                                         |          |        |         |         |        |        |        |        |        |        |
| Income before taxes ....\$                               | 7.68     | 6.76   | 6.90    | 4.42    | 4.06   | 3.81   | 3.98   | 4.09   | 3.77   | 2.82   |
| Income after taxes* ....                                 | 4.46     | 3.70   | 3.67    | 2.49    | 2.11   | 1.98   | 1.98   | 1.96   | 1.79   | 1.20   |
| Cash flow .....                                          | 11.23    | 9.63   | 9.31    | 7.02    | 5.33   | 4.90   | 4.75   | 3.89   | 3.39   | 3.11   |
| Dividends paid .....                                     | 1.20     | 1.20   | 1.00    | 1.00    | .95    | .90    | .90    | .90    | .80    | .80    |
| Shareholders' Equity ...                                 | 36.99    | 33.74  | 31.24   | 28.57   | 27.08  | 25.92  | 24.83  | 23.75  | 22.69  | 21.70  |
| Number of shares out-<br>standing (thousands) .          | 800      | 800    | 800     | 800     | 800    | 800    | 800    | 800    | 800    | 800    |
| <b>Condensed Funds Statements</b>                        |          |        |         |         |        |        |        |        |        |        |
| Source of funds                                          |          |        |         |         |        |        |        |        |        |        |
| —operations .....                                        | \$ 8,983 | 7,705  | 7,447   | 5,619   | 4,266  | 3,918  | 3,799  | 3,070  | 2,658  | 2,485  |
| —long term financ-<br>ing and other .....                | 38       | 10,892 | 58      | 429     | 55     | 11,482 | 2,804  | 2,642  | 56     | —      |
|                                                          | 9,021    | 18,597 | 7,505   | 6,048   | 4,321  | 15,400 | 6,603  | 5,712  | 2,714  | 2,485  |
| Expenditures for                                         |          |        |         |         |        |        |        |        |        |        |
| —fixed assets .....                                      | 7,589    | 7,056  | 7,816   | 5,677   | 3,087  | 3,376  | 6,701  | 4,797  | 2,188  | 1,480  |
| —dividends .....                                         | 960      | 960    | 800     | 800     | 760    | 720    | 720    | 720    | 640    | 640    |
| —repayment of long<br>term borrowings<br>and other ..... | 195      | 13     | 763     | 608     | —      | 6,100  | —      | —      | 321    | 753    |
|                                                          | 8,744    | 8,029  | 9,379   | 7,085   | 3,847  | 10,196 | 7,421  | 5,517  | 3,149  | 2,873  |
| Net increase (decrease)<br>in working capital ...\$      | 277      | 10,568 | (1,874) | (1,037) | 474    | 5,204  | (818)  | 195    | (435)  | (388)  |
| <b>Financial Position</b>                                |          |        |         |         |        |        |        |        |        |        |
| Current assets .....                                     | \$31,215 | 25,960 | 23,416  | 13,974  | 13,248 | 12,990 | 11,113 | 10,493 | 9,067  | 8,459  |
| Current liabilities .....                                | 16,512   | 11,534 | 19,558  | 8,242   | 6,479  | 6,695  | 10,022 | 8,584  | 7,353  | 6,310  |
| Working capital .....                                    | 14,703   | 14,426 | 3,858   | 5,732   | 6,769  | 6,295  | 1,091  | 1,909  | 1,714  | 2,149  |
| Fixed assets at                                          |          |        |         |         |        |        |        |        |        |        |
| net book value .....                                     | 43,170   | 39,480 | 35,740  | 31,031  | 28,206 | 27,206 | 25,610 | 20,334 | 16,849 | 15,885 |
| Long term debt .....                                     | 21,464   | 21,633 | 10,636  | 11,400  | 12,000 | 12,000 | 6,100  | 3,300  | 700    | 1,000  |

\*For purposes of comparison, income taxes and income after taxes for the year 1967 have been restated to reflect the income tax allocation method of accounting used subsequent thereto. This restatement has not been reflected in the financial statements — see Note 1 attached to financial statements.







## Officers and Executive Management

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GEORGE L. O'LEARY  
*Chairman, President & Chief Executive Officer*

THOMAS J. BIRKENHEAD  
*Controller*

JAMES C. BOYLE  
*Assistant Vice President (Industrial Marketing)*

W. MICHAEL FERRIE  
*Assistant Vice President*  
*(Director of Corporate Personnel)*

BERNARD A. GOULET  
*Vice President*  
*(General Manager, Eastern Manufacturing Division)*

JOHN J. HERB  
*Secretary, Scott Paper Limited*  
*Vice President, Westminster Paper Company Limited*

DOUGLAS HOLME  
*Vice President (Manufacturing)*

NORMAN A. KELLY  
*President, Westminster Paper Company Limited*

RALPH M. KITOS  
*General Manager, Western Manufacturing Division*

J. CORTLAND LANGE  
*Consumer Marketing Manager*

WILLIAM M. MATTICE  
*Director of Quality Control*

PETER J. PETERS  
*Vice President (Finance) and Treasurer*

JOHN F. PHILIP  
*Assistant Vice President*  
*(Manufacturing and Distribution Development Manager)*

H. PETER SANAGAN  
*Vice President (Marketing)*

R. D. BRUCE SHELLY  
*Manager, Planning and Corporate Development*

DAVID H. STOWE  
*Assistant Vice President*  
*(Director of Consumer Sales)*

## Board of Directors

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H. CLARK BENTALL\*  
*Chairman and Chief Executive Officer*  
*Dominion Construction Company Limited*  
*Vancouver, B.C.*

GILBERT C. CLARKE  
*Deputy Chairman of the Board*  
*Standard Brands Limited, Montreal, P.Q.*

ALEX W. FISHER, Q.C.†  
*Associate Counsel, Davis & Company*  
*Barristers & Solicitors, Vancouver, B.C.*

W. DOUGLAS H. GARDINER†  
*Deputy Chairman*  
*and Executive Vice President*  
*The Royal Bank of Canada, Toronto, Ontario*

GEORGE L. O'LEARY\*†  
*Vancouver, B.C.*

PETER J. PETERS\*  
*Vancouver, B.C.*

RENAULT ST-LAURENT, Q.C., LL.D.  
*Partner, St-Laurent, Monast, Walters*  
*& Vallieres, Barristers & Solicitors*  
*Quebec City, P.Q.*

JAMES D. STOCKER\*  
*Vice President & Group Executive*  
*Scott Paper Company, Philadelphia, Pa.*

\*Member of the Executive Committee.

†Member of the Audit Committee.

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## Transfer Agent and Registrar

THE CANADA TRUST COMPANY  
*Vancouver, Calgary, Toronto, Montreal and Halifax*

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## Stock Listings

Vancouver, Toronto and Montreal Stock Exchanges

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## Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 11:30 a.m. on April 25, 1977 at the Hyatt Regency Hotel, Vancouver, B.C.



